FISCAL NOTE

Bill #: **HB0174**

Title: Generally revise taxation of electric utilities

Primary Sponsor: Chase Hibbard

Status: 3rd Reading

Sponsor signature	Date	Dave Lewis, Budget Director	Date

Fiscal Summary

	FY2000 Difference	**FY2001 Difference**
Expenditures:		
General Fund	$84,157	($712,014)
Revenue:		
General Fund	$1,701,000	($2,717,829)
State Special Revenue	0	(387,969)
Net Impact on General Fund Balance:	**$1,616,843**	**($2,005,815)**

Yes	No		Yes	No	
X		Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

Property Tax Impact

1. This proposal is effective on January 1, 2000.
2. All investor-owned electric utility generation facilities are transferred from class 9 (12%) to a new class 13 and taxed at 6% of their market value on January 1, 2000, except for electrical generation facilities used for noncommercial purposes, exclusively for agricultural purposes, or qualifying small power production facilities.
3. The assessed value for the electrical facilities property remaining in class 9 is not greater in FY2000 or FY2001 than the assessed value in 1998.
4. The 1999 market value of investor-owned is not known at this time. For purposes of this fiscal note, the 1998 market value is used. The 1998 market value of investor-owed electric generation properties was $1,433,721,647. The total 1998 property tax on all investor-owned electrical generating facilities was $33,567,759.

5. The tax year 2000 market value of all investor-owned electric generation property is estimated to be $1,945,470,508. The market value reflects a pending sales price of specific generating facilities. The tax year 2000 market value also includes the 1998 market value of facilities not subject to the pending sale.
6. There are no property tax reductions until FY2001. The total taxable value of all investor-owned electrical generating facilities in FY2001 is $116,728,230 ($1,945,470,508*.06). This lowers electric generation property taxes to $26,703,821, a reduction of $6,863,937 from the 1998 level. Of this amount, funding for the state general fund is reduced by $5,255,244; the university system by $331,911; and local governments and schools by $1,276,783.
7. The assessed value of generation property will change between 1998 and implementation of this bill. Both positive and negative changes in taxable value will occur in each levy district where generation property is located. It is assumed that the statewide total of taxes generated will not change substantially from current levels due to the revaluation of the generating property and subsequent change in taxable value.
8. Local governments and schools are reimbursed based on the reimbursement formula contained in the bill.
9. The state general fund, the university fund, and any assessment for state assumption of welfare are not reimbursed.

Wholesale Energy Transaction Tax (Wet Tax)

10. The WET tax applies to kilowatts per hour (kWh) of electricity produced or consumed in Montana. Electrical production is subject to the tax whether consumed in Montana or exported to another state. Electricity consumed in Montana is subject to the WET tax whether generated in Montana or imported for consumption from another state. The WET tax is applied to electrical transmission at the rate of 0.015 cent/kWh. The transmission service provider collects the tax on a quarterly basis.
11. Exemptions to the Wet Tax include: a) electricity that is transmitted through the state that is neither produced nor consumed in the state; b) electricity generated in the state by an agency of the federal government for delivery outside the state; c) electricity delivered to a distribution services provider that is a municipal utility described in 69-8-103(5)(b) or a rural electric cooperative; d) electricity delivered to a purchaser that receives its power directly from a transmission or distribution facility owned by an entity of the United States government on or before May 2, 1997, or electricity that is transmitted exclusively on transmission or distribution facilities owned by an entity of the United States government on or before May 2,1997; e) electricity meeting certain contractual requirements that is delivered by a distribution services provider that was first served by a public utility after December 31, 1996; f) electricity that has been subject to the transmission tax in another state.
12. The electric generation figures from HJR2 are used to estimate the WET tax. In addition, information on the amount of electricity imported into the state was obtained from industrial users and electric power companies. Based on this information, the WET Tax is estimated to produce $1,701,000 in FY2000 and $3,425,000 in FY2001. The tax is deposited to the State general fund.

Reimbursement Distributions

13. Reimbursements are distributed on a semi-annual basis to the county treasurer in the counties affected by a reduction in electric generation property taxes.
14. Distributions are based on each jurisdiction's change in assessed value of electric generation facilities and its previous years mill levy.
15. In FY2001, reimbursements, based on the language in the bill, are anticipated to be $1,276,783 for local governments and schools.

4R Impact

16. The reduction in taxable value of class 9 property reduces taxes paid by railroads and airlines per the 4Rs Act. In FY2001, the tax rate on class 12 (4R property) will decrease from 6.17% to 5.74%. In FY2001, the

total revenue reduction for class 12 property is $1,822,899. This is distributed $887,585 for the state general fund; $56,058 for the university account; and $879,256 to local governments and schools.

GTB Impacts

17. The change in taxable values and non-levy revenue reimbursements based on the reimbursement formula under this bill will cause school districts to change GTB levies in FY2001 to maintain minimum budgets required under section 20-9-308(1)(a), MCA. As a consequence, state GTB aid will *decrease* $2,056,369 in FY2001 (school funding model).

Administrative Costs

18. The Department of Revenue will require 1.75 additional FTE for administration of HB174. The FTE will provide technical expertise will review and implement the application process, reporting requirements, distribution of the proceeds and other administrative duties associated with implementation.

FISCAL IMPACT:	FY2000 Difference	FY2001 Difference
FTE	1.75	1.75
Expenditures:		
Personal Services	$64,237	$63,790
Operating Expenses	8,830	3,782
Equipment	11,090	0
Local Assistance-Reimbursements		1,276,783
Local Assistance-School GTB	0	(2,056,369)
Total	$84,157	($712,014)
Funding:		
General Fund (01)	$84,157	($712,014)
Revenues:		
General Fund – WET Tax (01)	$1,701,000	$3,425,000
General Fund – 95 mills (01)	0	(6,142,829)
State Special Revenue – 6 mills (02)	0	(387,969)
Total	$1,701,000	($2,717,829)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	$1,616,843	($2,005,815)
State Special Revenue (02)	0	(387,969)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Under this proposal, the property tax revenue reduction to local governments and schools, including 4Rs revenue impacts, in FY2001, is $2,156,039. However, per the reimbursement language in the bill they will be reimbursed $1,276,783. There is no language dealing with reimbursement for lost revenue to the bills impact on Class 12 (4R Act) property..

LONG-RANGE IMPACTS:

The long-range impacts of this proposal will depend on a variety of factors. The pending sale of electric generation property will change the taxable value of electric generation properties. Electricity subject to the WET Tax will fluctuate on an annual basis.

TECHNICAL NOTES:

1. The reimbursement mechanism for local government is calculated as stated in the bill.
2. The following tables and information are provided for informational purposes. The impacts of implementation of the bill can be calculated in one of two ways based on one's assumption regarding the timing of the pending sale of MPC assets. A sale completed in tax year 1999 would have the impacts shown below in Table 1. The market value of generation assets would increase by $511,748,861 resulting in a net reduction in taxable value of $55,318,000 and a net reduction in property taxes of $6,855,284. A sale completed after TY1999 would have the impacts shown in Table 2. There would be no change in the market value of generation assets resulting in a reduction in taxable value of $86,023,000 and a net reduction in property taxes of $16,784,000.

Table 1
Calculated per the Fiscal Note
Completion of Sale of
Generating Assets is Included

Tax Year 2000			
	HJR2	PL	Difference
Market Value	1,433,721,647	1,945,470,508	511,748,861
TV Rate	12%	6%	-6%
Taxable Value	172,046,598	116,728,230	(55,318,367)
Mill Levies:			
- State:	0.09500	0.09500	0
- U-Sys	0.00600	0.00600	
- All Other:	0.09411	0.12784	0.03373
- Total Mill	0.18911	0.22884	0.03973
Total Taxes	33,567,759	26,703,821	(6,863,938)
State	16,344,427	11,089,184	(5,255,243)
U-Sys	1,032,280	700,369	(331,910)
All Other	16,191,052	14,914,268	(1,276,784)
Total	33,567,759	26,703,821	(6,863,937)

Table 2
If Pending Sale does not proceed
Generating Assets based on 1998 Values

Tax Year 1998			
	CL	PL	Difference
Market Value	1,433,721,647	1,433,721,647	0
TV Rate	12%	6%	-6%
Taxable Value	172,046,598	86,023,299	(86,023,299)
Mill Levies:			
- State:	0.09500	0.09500	0
- U-Sys	0.00600	0.00600	0
- All Other:	0.09411	0.09411	0
- Total Mill	0.19511	0.19511	0
Total Taxes	33,567,759	16,783,920	(16,783,839)
State	16,344,427	8,172,213	(8,172,213)
U-Sys	1,032,280	516,140	(516,140)
All Other	16,191,133	8,095,567	(8,095,567)
Total	33,567,840	16,783,920	(16,783,920)